

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 1st day of March, 2005 (Effective Date), by and between First Piedmont Federal Savings and Loan Association, Gaffney, SC, OTS Docket No. 02502 (First Piedmont or Association), a federally chartered mutual savings and loan association, and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting through its Southeast Regional Director or his designee (Regional Director).

WHEREAS, the OTS is the primary federal regulator of the Association;

WHEREAS, based upon the Association's September 30, 2004 Report of Examination (2004 Examination) and November 29, 2004 Information Technology Report of Examination (IT Examination), the OTS is of the opinion that First Piedmont has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Association is subject; and/or (ii) are considered to be unsafe and unsound;

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of an administrative proceeding against the Association;

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Association will: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices; and

WHEREAS, the Association, acting through its Board of Directors (Board), without admitting or denying that such grounds exist except those as to jurisdiction, which are admitted, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises and the mutual undertakings set forth herein, the parties hereto agree as follows:

Compliance With Laws and Regulations.

1. The Association, its Directors, officers, employees, agents, and subordinate organizations shall take all necessary and appropriate actions to comply with the following laws and regulations:

- a. the Currency and Foreign Transactions Reporting Act, as amended by the USA Patriot Act and other laws (Bank Secrecy Act or BSA), 31 U.S.C. §§ 5311 et seq.,¹ and the related BSA regulations issued by the U. S. Department of the Treasury, 31 C.F.R. §§ 103.11 et seq., and the OTS, 12 C.F.R. § 563.177 (collectively with the aforementioned laws and regulations, the BSA Laws and Regulations);

¹ All references to the United States Code (U.S.C.) are as amended.

- b. the Interagency Guidelines Establishing Standards for Safeguarding Customer Information set forth in 12 C.F.R. Part 570 Appendix B;
- c. The OTS regulations regarding real estate lending standards set forth in 12 C.F.R. § 560.101; and
- d. the OTS regulations governing suspicious activity reports and other reports and statements set forth in 12 C.F.R. § 563.180.

Anti-Money Laundering/BSA Compliance

2. Effective immediately, the Board shall take all steps necessary to ensure that an independent test of First Piedmont's day-to-day compliance with the BSA Laws and Regulations and the Association's program, policies and procedures for ensuring compliance with the BSA Laws and Regulations (BSA Compliance Program) is conducted not less than annually. The test shall be performed by a qualified independent outside third party with knowledge of the BSA Laws and Regulations and experience in compliance with the requirements imposed by such laws and regulations and completed within ninety (90) days after each fiscal year end. The independent test shall comprehensively review First Piedmont's BSA risk-assessment; the Association's internal controls for preventing money laundering and terrorism financing; and First Piedmont's compliance with the BSA Laws and Regulations. The Board shall ensure that the scope of the test considers and incorporates, as appropriate for the size and complexity of the Association, the examination procedures established by the OTS in Section 400 of the Compliance Activities Handbook and the BSA checklist contained in the OTS Compliance Self-Assessment Guide. Each independent test shall, at a minimum, include:

- a. a review of the Association's policies and procedures regarding compliance with the BSA; Office of Foreign Assets Control (OFAC) required checks, 31 C.F.R. Part 500; OTS regulations regarding Customer Identification Programs (CIP), 12 C.F.R. § 563.177(b)(2) and 31 C.F.R. § 103.121; and Suspicious Activity Report (SAR) filings, 12 C.F.R. § 563.180(d) and 31 C.F.R. § 103.18 (collectively the SAR Regulations), to determine that such policies and procedures are in compliance with applicable laws and regulations, including any changes to such laws and regulations;
- b. a test of the Association's internal control procedures for monitoring compliance with the BSA, OFAC, CIP, and SAR Policies, including interviews of employees involved in or responsible for First Piedmont's compliance, and their supervisors;

- c. a review of the Association's CTR filings for accuracy and completeness;
- d. a test and confirmation of the integrity and accuracy of the systems for the reporting of large currency transactions, including a review of the reasonableness of the amount designated by the Association as a "large transaction" for inclusion on the report;
- e. a review of the Association's large currency transactions report and First Piedmont's analysis of large currency transactions and determinations regarding the filing of any SARs;
- f. a review of all SARs filed by the Association to evaluate their accuracy and completeness;
- g. a determination of whether the Association has any customers exempt from CTR filings, a review of the exempt customer list to confirm that First Piedmont is maintaining the required list, a test of the validity and reasonableness of the CTR filing exemptions granted by the Association, verification that First Piedmont is performing an annual review of each exempt customer to determine their continued qualification for an exemption, and confirmation that required procedures to re-designate or, if appropriate, remove customers from the exempt list are being followed;
- h. a test confirming the integrity and accuracy of the Association's recordkeeping system to ensure that all required records are being created and retained by First Piedmont in accordance with all applicable record retention requirements;
- i. a review of the Association's most recent examination report and the results of the immediately preceding BSA Compliance Program independent test and verification of Board review and the adoption and implementation of adequate and appropriate corrective action;
- j. a test of the Association's policies and procedures regarding the designation, identification and monitoring of high risk accounts for possible money laundering or other suspicious activity for which a SAR must be filed;
- k. a review of the Association's policies and procedures for receiving and responding to requests from the Financial Crimes Enforcement Network (FinCEN), made pursuant to Section 314(a) of the USA PATRIOT Act and 31 C.F.R. § 103.100, which shall

require, at a minimum, maintenance of a log that lists each Section 314(a) request received by the Association, logged in by the FinCEN assigned control number, the date the request was received, the date that First Piedmont's review was completed, the number of hits found, and, if applicable, the date the Association responded to FinCEN;

- l. a test of the Association's CIP and requirements to determine the effectiveness in complying with First Piedmont's customer information policies and applicable legal and regulatory requirements;
 - m. a review of the Association's due diligence procedures for correspondent accounts;
 - n. a review of tellers' work forms and CTR forms;
 - o. a determination that the Association has procedures in place for maintaining required information on customers purchasing monetary instruments for cash amounts between \$3,000 and \$10,000 and that appropriate identification measures are in place;
 - p. a determination that the Association is conducting an ongoing annual training program for its employees and verification that First Piedmont is maintaining records of such training;
 - q. a determination that the Association is monitoring cash shipments to and from the Federal Reserve Bank or its correspondent bank; and
 - r. a determination that the Association is retaining all workpapers generated by or in connection with each independent test of First Piedmont's BSA Compliance Program, the results and findings of each independent test, and the Board meeting minutes reflecting the Board's review of the independent test results and any required corrective action(s) adopted by the Board.
3. Effective immediately, the Board shall engage a qualified independent outside third party with knowledge of the BSA Laws and Regulations and experience in compliance with the requirements imposed by such laws and regulations to conduct an independent test of the Association's BSA Compliance Program, including a transaction review for the period March 1, 2002 to the present, to evaluate First Piedmont's compliance with the BSA Laws and Regulations and determine whether any suspicious activity at, by, or through the Association was properly identified and reported in accordance with applicable regulations. The independent test shall comply with the requirements set forth in Paragraph 2 above and shall be completed within

ninety (90) days after the Effective Date of this Agreement. Within thirty (30) days after its completion, the Board shall review the findings of the independent test required by this Paragraph 3 and determine the appropriate corrective action required to address any deficiencies or weaknesses. The Board shall fully document its review and any corrective actions adopted in the appropriate Board meeting minutes. The Board shall ensure that Management fully implements the corrective actions adopted by the Board. A copy of the independent test and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) business days after the date of the Board meeting.

4. Effective immediately, the Board shall require the final findings of each annual independent test conducted in compliance with the requirements of Paragraph 2 above to be promptly reported to and reviewed by the Board at the next regularly scheduled Board meeting following completion of each independent test. The Board shall ensure that its discussions of the testing results, including any actions taken or required by the Board, are thoroughly and accurately documented in the Board meeting minutes. The Board shall ensure that Management fully implements the corrective actions adopted by the Board. The Association shall retain all workpapers generated by or in connection with the independent testing of First Piedmont's BSA Compliance Program and BSA compliance.

5. Within thirty (30) days after the Effective Date of this Agreement, the Board shall review and, as necessary, revise the Association's BSA Compliance Program to strengthen First Piedmont's Anti-Money Laundering and BSA compliance. The Board shall, at a minimum:

- a. designate a member of Senior Management to serve as the BSA Officer and actively manage, coordinate and monitor the Association's day-to-day compliance with the BSA Policy and First Piedmont's program for ensuring compliance with the BSA Laws and Regulations (BSA Compliance Program);
- b. establish and adopt a written methodology and standards for assigning risk levels to customers based upon specific factors established by the Board, including but not limited to, the type of business being conducted, the specific products being offered and the geographic location(s) of the customer's operations;
- c. establish appropriate levels of enhanced due diligence required for higher risk customers based upon the risk level assigned to such customer, including, but not limited to, the appropriate documentation and records necessary to verify a customer's identity, business activities, and normal and customary transactions and the routine monitoring of customer transactions and account activity to identify transactions or activity that is not normal or customary in light of past patterns of

transactions or activity, not commensurate with expected transactions or activity, or otherwise suspicious or without any apparent legal purpose;

- d. prohibit the exemption from the BSA requirements of any business or company that is not in good standing with its primary state regulator or that is subject to an enforcement action or reprimand from such regulator;
- e. require Management to conduct appropriate due diligence as necessary to ensure that all money service business (MSB)² customers: (i) are appropriately identified as higher risk customers, (ii) subjected to account monitoring and review in accordance with the procedures established by the Board under Paragraph (5)(c) above, (iii) have current MSB registrations filed with the U.S. Department of the Treasury pursuant to 31 C.F.R. § 103.41, and (iv) maintain written procedures designed to ensure the MSB complies with applicable BSA Laws and Regulations;
- f. establish specific procedures to ensure that known or suspected criminal activity against or involving the Association, including transactions that are or appear to be structured to evade or circumvent the BSA requirements, are timely detected and reported, in an accurate and complete manner, to law enforcement and supervisory authorities by the filing of a SAR, as required by the SAR Regulations; and
- g. require a log documenting compliance with the FinCEN Section 314a requests by noting the date of the request, the control number of the request, date that the search was initiated, the date that the search was completed, and the number of responsive hits.

The Board shall take all steps necessary to ensure that First Piedmont's BSA Compliance Program, as revised consistent with the requirements of this Agreement, is fully implemented and thereafter fully adhered to by the Management and staff of the Association.

Customer Identification Program

6. Effective immediately, Management shall prepare a new CIP to strengthen and ensure the Association's compliance with the requirements of 31 C.F.R. § 103.121 and the guidance contained in Chief Executive Officer Memorandum No. 202 (July 27, 2004). The CIP shall be a part of the Association's BSA Compliance Program and, at a minimum:

² The term Money Service Business as used in this Agreement has the same meaning as the definition contained in 31 C.F.R. § 103.11(uu).

- a. contain specific requirements and procedures governing the origination and establishment of new accounts;
- b. establish guidelines to be followed for verifying a customer's identity;
- c. ensure the collection of all information required by 31 C.F.R. § 103.121(b)(2);
- d. require verification of the identity of loan applicants and specific documentation of the nature and purpose of loans secured by collateral other than real property as required by 31 C.F.R. § 103.33(a); and
- e. provide for the required customer notification to be placed at each location where loan applications are accepted.

7. Within thirty (30) days after the Effective Date of this Agreement, the Board shall review and, as appropriate, approve the Association's CIP. The Board's review and approval shall be fully documented in the appropriate Board meeting minutes, including any further changes to CIP as identified by the Board. A copy of the final CIP, as prepared by Management consistent with the Board's review and approval, and the Board meeting minutes reflecting the Board's review and approval shall be provided to the Regional Director within ten (10) days after the date of the appropriate Board meeting. The Board shall take all steps necessary to ensure that the Board approved CIP is fully implemented and thereafter fully adhered to by First Piedmont's Management and staff.

Office of Foreign Assets Control

8. Within thirty (30) days after the Effective Date of this Agreement, the Board shall review and revise the Association's policies and procedures to implement the applicable requirements of the regulations of the U.S. Department of the Treasury OFAC, 31 C.F.R. Part 500 (OFAC Policy). The Board shall ensure that all new deposit and loan accounts, including those for businesses and their principals, initiators and recipients of wire transfers, and individuals involved in the purchase of monetary instruments are being checked against the most current OFAC control list and that all outstanding deposit and loan accounts, including those for businesses and their principals, are being checked against the OFAC control list at least annually. The Board shall take all steps necessary to ensure that the revised OFAC Policy required by this Paragraph 8 is fully implemented and thereafter fully adhered to by the Association's Management and staff.

Information Technology

9. Within thirty (30) days after the Effective Date of this Agreement, the Board shall review the Association's information technology (IT) audit function, including the resources currently allocated to the IT audit function, and take all steps necessary to strengthen and improve the Association's IT audit function, including the allocation of additional resources necessary to ensure that timely and effective internal and external IT audit reviews (IT Audit) are conducted and reported to Management and the Board, as appropriate. The IT Audit should, at a minimum:

- a. review and assess all areas of significant IT risk,
- b. determine the existence and effectiveness of the Association's IT controls, policies and procedures for all areas of IT risk;
- c. review and assess the Association's compliance with the requirements of 12 C.F.R. Part 570 Appendix B; and
- d. review and assess the corrective actions taken to address deficiencies and weaknesses identified in prior IT Audits and IT Examinations.

10. Within sixty (60) days after the Effective Date of this Agreement, the Board shall develop and adopt a Confidential Customer Information Security Program (CIS Program) that complies with the requirements of 12 C.F.R. Part 570 Appendix B and such other regulatory guidance as may be issued. The Board shall require Management to develop for the Board's adoption a formal information security policy (IS Policy) to support the CIS Program with specific standards, procedures and controls incorporated into the CIS Program's operating environment. The Board shall review, update and approve the IS Policy annually. The Board's review and discussion of matters covered by this Paragraph 10, including the Board's approval, shall be fully documented in the appropriate Board meeting minutes. A copy of the Board meeting minutes reflecting the Board's development and approval of the CIS Program and the IS Policy, along with copies of each, shall be provided to the Regional Director within ten (10) days after the Board's review and approval. The Board shall take all steps necessary, including the allocation of adequate resources, to ensure that the Association's CIS Program and IS Policy are fully implemented and thereafter fully adhered to by the Management and staff of First Piedmont.

Loan Underwriting

11. Within sixty (60) days after the Effective Date of this Agreement, the Board shall require Management to develop, prepare and submit to the Board for review a quarterly report identifying and tracking all loans granted by the Association as an exception to the supervisory loan to value (LTV) limits set forth in 12 C.F.R. § 560.101. The Board shall ensure that all loans granted as exceptions to the LTV limits do not exceed the limits set forth in 12 C.F.R. § 560.101. The Board's review of loans granted as exceptions to the LTV limits, including the current status of such loans, shall be fully documented in the Board minutes.

12. Within sixty (60) days after the Effective Date of this Agreement, the Board shall review and revise the Association's loan policies and procedures to establish the terms and conditions on which commercial/nonresidential real estate loans will be granted and establish loan portfolio diversification standards in compliance with 12 C.F.R. § 560.101.

Director Responsibility

13. Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual Director's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Association at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

Compliance with Agreement

14. All policies, procedures, corrective actions, plans, programs, reviews and systems required by this Agreement (collectively, Policies and Procedures) shall conform to all applicable statutes, regulations, OTS policy and guidance. The Board shall submit copies of all Policies and Procedures required by this Agreement to the Regional Director within the timeframes specified or, in the event a timeframe is not specified, within thirty (30) days after adoption by the Board. The Board shall revise such Policies and Procedures as required by the Regional Director within thirty (30) days of receipt of written direction from the Regional Director. The Policies and Procedures, as modified consistent with the written direction of the Regional Director, shall be incorporated into this Agreement and any deviation from such Policies and Procedures shall be a violation of this Agreement.

15. The Board shall require Management to correct all deficiencies identified in the Association's 2004 Examination and IT Examination, as directed therein, except where such direction is modified or changed by the terms of this Agreement. Further, the Board and Management of the Association shall take immediate action to cause First Piedmont to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Agreement.

16. The Board shall, on a quarterly basis beginning with the calendar quarter ending March 31, 2005, adopt a resolution (the Compliance Resolution), at the next Board meeting after the end of each calendar quarter, formally resolving that, following a diligent inquiry of relevant information (including a report from Management regarding the Association's compliance with each numbered paragraph of this Agreement), to the best of its knowledge and belief, during the calendar quarter immediate preceding the date of the Board meeting, First Piedmont has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall:

- a. specify in detail how, if at all, full compliance was found not to exist; and
- b. identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption.

17. The minutes of each meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution:

- a. the identity of each Director voting in favor of its adoption; and
- b. the identity of each Director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such Director's reasoning for opposing or abstaining.

18. Within ten (10) calendar days after the Board's adoption of the Compliance Resolution required by Paragraph 16 above, the Board shall provide the Regional Director with a certified true copy of the Compliance Resolution adopted by the Board. The Board, by virtue of the submission of a certified true copy of such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except that in the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the Board meeting minutes.

19. The Board shall promptly respond to any request from the OTS for documents to demonstrate compliance with this Agreement, including making First Piedmont's records and documents available for OTS examiner review upon request.

Definitions

20. All technical words or terms used in this Agreement for which meanings are not specified or otherwise provided by the provisions of this Agreement shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, Federal Deposit Insurance Act (FDIA) or OTS Memoranda. Any such technical words or terms used in this Directive and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

Successor Statutes, Regulations, Guidance, Amendments

21. Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

Notices

22. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:

- a. the OTS by the Association, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree Street, N.E., Atlanta, Georgia, 30309, or telecopied to 404.897.1861 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address; and
- b. the Association by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Association at 1229 W. Floyd Baker Blvd., Gaffney, South Carolina 29341 or telecopied to 864.488.4218 and confirmed by first class mail, postage prepaid, overnight delivery service or

physically delivered, in each case to the above address.

Duration, Termination or Suspension of Agreement

23. This Agreement shall:

- a. become effective upon its execution by the OTS, through its authorized representative whose signature appears below; and
- b. remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

24. The Regional Director in his sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

Time Limits

25. Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

Effect of Headings

26. The Section headings herein are for convenience only and shall not affect the construction hereof.

Separability Clause

27. In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his sole discretion determines otherwise.

No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted

28. Nothing in this Agreement shall be construed as:

- a. allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject; or

- b. restricting the OTS from taking such action(s) as are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

Successors in Interest/Benefit

29. The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Signature of Directors

30. Each Director signing the Agreement attests, by such act, that she or he voted in favor of a Board resolution authorizing the execution of this Agreement by the Association.

Integration Clause

31. This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter. However, as noted herein, all Policies and Procedures required by this Agreement shall, upon modification consistent with the direction of the Regional Director, become part of this Agreement and any deviation from these policies shall be deemed a violation of this Agreement.

Enforceability of Agreement

32. The Association represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of First Piedmont. The Association acknowledges that this Agreement, is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

Counterparts

33. This Agreement may be executed in two or more counterparts, all of which shall be

considered one and the same agreement and each of which shall be deemed an original.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and the Association, in accordance with a duly adopted resolution of its Board, hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

By:

/s/

John E. Ryan
Regional Director

March 1, 2005

Dated

THE ASSOCIATION

By:

/s/

Name: _____
Title: _____

/s/

Director

/s/

Director

/s/

Director

/s/

Director

/s/

Director

/s/

Director